

Exhibit No. 2
Date 3/16/09
Bill No. HB 384**Statement of Pat Schlauch****On behalf of the Montana Higher Education Student Assistance Corporation****Concerning House Bill No. 384**

Mr. Chairman, members of the Committee. My name is Pat Schlauch. I rise before you today on behalf of the Montana Higher Education Student Assistance Corporation (aka MHESAC). MHESAC supports the enactment of H.B. 384 and commends Representative Villa for sponsoring this legislation.

H.B. 384 does several things. First, it clarifies that MHESAC, a non-profit corporation is a "state issuer" as defined under the bill, to the extent that it is authorized under federal law to issue private activity bonds. Second, it increases the fee for usage of volume cap from \$.30 to \$.35 per \$1000 of private activity tax-exempt bonds issued by a "state issuer." Given the normal level of MHESAC student loan debt issuance this will produce an additional \$6250 annually solely from MHESAC towards the cost of the State of Montana financial audit. Thirdly, it clarifies what already exists as a matter of standard practice, namely, the transparency and conduct of the business of the MHESAC board and business activities in a fashion that assures an opportunity for public knowledge and involvement and the transparency of the "state issuers" financial records, including those of MHESAC. Under H.B. 384, MHESAC would become formally subject to Montana's open meeting laws "unless compliance would conflict with federal or state security disclosure laws." Also, the legislative auditor will have full access to the financial records of all state issuers, including MHESAC. The financial records available to the legislative auditor would also include all management or loan servicing contracts of MHESAC.

This is a relatively minor change as currently MHESAC operates its business in a very transparent fashion including;

- conducting publicly noticed open board meetings and;
- holding publicly noticed public hearings prior to the issuance of any bond financings;

- providing a detailed disclosure document to potential investors and the public in connection with each MHESAC financing;
- providing annual disclosure statements to its investors;
- providing its audits, annual reports and tax returns to numerous parties including the Board of Regents , the governors office , legislative auditor and the public;
- providing reports to the Board of Regents concerning MHESAC's performance and business plan; and
- making vast amounts of information about its activities and financing performance available to investors and the public on its website.

I would like to take this opportunity to provide the Committee with some key facts that you may not be aware of:

- MHESAC has attracted more than \$2 billion in capital from investors outside the state of Montana to support FFELP student loans for Montana students.
- The Montana Guaranteed Student Loan Program, in concert with MHESAC and more than 40 lending partners in Montana, provides more than \$150 million annually in FFELP loans to Montana students.
- MHESAC has never received any state money for its program.
- MHESAC issues private activity tax-exempt bonds that are secured solely by the student loans that are being financed.
- The state of Montana has no obligation for any of MHESAC's financings.
- MHESAC has provided more than \$38 million in borrower benefits to Montana citizens to help them lower the cost of financing their education.
- Financing of federal student loans is complex. In FFELP, the federal government sets borrowers interest rates at a fixed level. The federal government also sets the lender return. That lender yield is a variable

return that resets daily. The difference between what the borrower pays and the lender yield is required to be paid back to the federal government by the lender. Given the nature of the return set by the federal government for lenders the predominate business approach for financing these loans has been long-term financings with short term borrowing resets. Disruptions to the financial markets have resulted in increased borrowing costs for lenders at that same time that major federal support for the financial markets has lowered lenders earnings. This perfect storm has resulted in difficult but fiscally prudent business decisions by MHESAC and SAF.

Again, this legislation establishes a formal level of accountability, review and transparency. This legislation is similar to legislation that was introduced in 2007 It has been enhanced to address concerns that existed at that time. MHESAC has no issues with his approach. Indeed, MHESAC welcomes this increased transparency because it is dedicated to its mission of providing capital to allow Montana students to allow them to finance their education and to help lower the cost of such financing over the long haul. Consequently, MHESAC believes it is extremely important that the Legislature and the citizens of Montana maintain full confidence in the integrity of MHESAC's programs – now and into the future. This is particularly important in an era when uncertainty over the economy casts shadows over almost anything having to do with bonds and loans.

H.B. 384 is a well-crafted bill that accomplishes its purpose of reassuring the legislature and the citizens of Montana that transactions and financial activities of issuers of private activity bonds are carried out in the best interests of the State of Montana. MHESAC urges a “do pass” recommendation from the committee. I am available to answer any questions the committee may have.